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Political Connection and Firm Value

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Abstract

We study the effect of political connection (PC) on company value in an environment where low PC is due to better institutions and not confounded by favorable social/cultural factors. We find that in Singapore, the only country that fits this description, PC in general adds little to the value of a company. However, in industries that are subject to more stringent government regulation, PC appears to be somewhat important. Robustness checks show that alternative PC variables give rise to similar results, and the addition of control variables do not drastically change the findings. PC firms have higher managerial ownership and tend to be smaller than non-PC firms, rendering them more susceptible to poorer governance practices. We show that the presence of PC directors somewhat neutralizes such potential negative effects. PC firms are associated with good governance practices such as non-duality in their Chairman and CEO and fewer executive directors.

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Political Connection and Firm Value

I. Introduction

While the value of political connection to firms has received considerable research interest (Goldman, Rocholl and So (2009), Imai (2006), Khwaja and Mian (2004), Ang and Boyer (2000)), the question of whether political connection enhances firm value has mixed findings.[1] When the value of political connection is found to be high, they are often in countries with higher levels of official corruption. We do not know whether political connection is as valuable in the absence of political corruption, i.e., is political corruption a pre-condition for political connection to be valuable? To test this hypothesis, we examine the impact of politically connected directors on the value of firms operating in an environment where the perceived level of corruption is comparatively low.[2]

We select Singapore for the study because, although low in corruption, it is unique among low corruption countries. Unlike other low corruption countries where the results may be attributed to some shared social and/or cultural factors with its neighboring countries, Singapore

[1] Examining 47 countries, Faccio (2006) finds a positive relation between political connection and firm value. Specifically, she finds that political connection is common in countries that are highly corrupt. Goldman, Rocholl, and So (2009) show positive abnormal stock returns following the announcement of a politically-connected individual nominated to the board. Fan, Wong, and Zhang (2007), however, find a negative relation between politically-connected CEOs and post-IPO performance in China.

[2] According to *Transparency International*, an international non-governmental organization addressing corruption including but not limited to political corruption, Singapore ranks the *cleanest* country out of 178 in the world in 2010, together with Denmark and New Zealand, with a corruption perceptions index of 9.3. Finland and Sweden complete the top five least corrupt countries that year.

has an uncanny need for much stronger institutions as it is surrounded by countries that are perceived to be inherently more corrupt. For example, the 2010 edition of the global corruption perceptions index released by *Transparency International* lists New Zealand, Denmark, and Singapore as joint first-ranked holders of the world's least corrupt countries. Among these three, New Zealand's closest neighbor, Australia, is ranked #8 on the same index; Denmark, together with neighbors Sweden and Finland are ranked within the top five in 2010. By contrast, Singapore's immediate neighbors in Southeast Asia include Malaysia (ranked #56), Thailand (ranked #78), Indonesia (ranked #110), Vietnam (ranked #116), and the Philippines (ranked #134). Furthermore, the social and cultural background of Singaporeans, as derived from their ethnic background, also does not favor low corruption. Of the countries of ancestral origin among Singapore's three major ethnic groups (Chinese, Malays, and Indians), China ranked #78, Malaysia ranked #56, and India ranked #87. Thus, even if we find political connection not to benefit private firms with connections in both Scandinavian countries and Singapore, the underlying causes are inherently different. Singapore has to rely on having strong institutions to achieve low corruption, one that is not confounded by social and cultural factors. Its uniqueness makes it a natural experiment to study how institutions may limit the role of political influence in businesses. We feel that it is worthwhile to study the role of strong institutions such as those in Singapore. Specifically, we examine this issue within the context of post-IPO firms in Singapore.[3]

[3] It has been well documented in the existing literature, e.g., Ritter (1991), Ritter and Welch (2002) that firms with a higher level of IPO underpricing tend to underperform over the long run. In the present study, the sample of politically connected firms has a lower, but not statistically significant, level of underpricing than non-politically connected firms. Moreover, IPOs allow us to investigate the wholesale introduction of all politically connected

Previous studies have not specifically investigated low-corruption countries and did not conclusively argue that the effect of political connection is independent of corruption. We investigate the value of political connection under a political regime with low perceived corruption and document that firms operating under such a political environment benefit little, except for firms in highly regulated industries, from their political connection. This new finding, in contrast to those in previous studies that find strong value in political connection under a *corrupt* political regime, clarifies the role of political corruption and the channel that values are created for such firms and/or their managers. A corrupt political environment increases the probability that firms' connected politicians are willing and able to extract rents from the public and competitors on behalf of their firms. Such an environment also gives politically connected individuals certain incentives as they may receive a share of the extracted rents in the form of personal payoffs or campaign contributions with low perceived personal risks.

Politically connected firms may benefit through easier access to debt financing, lower taxes or stronger market power. Such benefits are usually greater when the firm operates in a country with a high level of corruption among its officials, low protection of property rights, a highly interventionist government or a non-democratic government (Faccio, 2006). In addition to gaining economic benefits, some firms may appoint politically connected directors for their knowledge and experience with government procedures, their insights in government actions, their ability to enlist the government for the firm's interest at the expense of competitors, or to forestall government action inimical to the firm (Agrawal and Knoeber, 2001). Goldman, Rocholl, and So (2009) find that companies connected to the US Republican Party experience an

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directors the first time the firms are introduced to the capital market. The design eliminates the need to adjust for the timing of an anticipation effect and the incremental value of a single appointee in later years.

increase in value following the Republican Party's win in the 2000 Presidential Election while companies connected to the Democratic Party saw a stock price plunge. In Singapore, firms may appoint politically connected directors to their board to signal stronger corporate governance. This argument is in line with the finding of Ang and Ding (2006) that government-linked companies in Singapore are associated with stronger corporate governance and higher firm valuations.

Political connection may add value to either the connected firms and/or their managers. An example is the contrast between Indonesia and China. Managers of Indonesian firms are often the largest shareholders, where 84.6% of the management is affiliated with the controlling owners (see Claessens, Djankov, and Lang (2000)). The extant literature highlights evidence from Indonesia where investors view political connection to the country's President as valuable, accounting for one-fourth of a firm's value and adding 33% to firm value (Fisman, 2001). Thus, because managers' stakes in the firms are large, a substantial share of rent extraction accrues to the firm. In China, however, the average management ownership of Chinese firms at the time of IPO is a mere 0.298% (Li et al. (2007) and firms with political connection underperform their counterparts that have no political connections by 37% over a three-year post-IPO period (Fan, Wong, and Zhang, 2007). This finding is consistent with the view that managers with a low personal ownership in their firms mainly divert the rent extracted from political connection to themselves and the connected politicians.[4]

[4] Other forms of political connection that is related to value reduction include having lower quality political appointees as managers and running the business as a political bureaucracy. It is also possible that Chinese investors fail to understand that it takes ownership alignment to have rent extracted from political connection to flow to the firm and not the managers.

The issue that we address in this article is whether political connection enhances firm valuation when political corruption is low. Underlying the hypothesis is the condition that significant rent extraction is made possible only under an environment of high political corruption. The alternative hypothesis is that political corruption may not be necessary for politically connected directors to help create value for their firms. For instance, politically connected directors who are non-corrupt may be able to influence their firm's governance structure by aligning it with the government's policy initiatives, which may lead to boosting investors' confidence and a resultant higher firm value in some cases.[5]

Singapore is in a unique situation as the only low corruption country in a region dominated by high corruption countries. In contrast, Denmark and New Zealand, which are jointly-ranked with Singapore as the top three least corrupt countries, have neighboring countries that are also low on corruption. But Denmark and New Zealand are less suitable for studying the issue raised here as their environment of political corruption, the willingness of politicians to abuse their powers, and firms or managers engaging in political rent extraction, may be related to an unspecified common factor – their shared social and/or cultural environment with its neighboring countries. Thus, Singapore provides a more ideal natural experiment for our study.[6]

[5] An example is from Ferguson and Voth (2005), who report that firms that are politically linked to Hitler's Nazi Germany outperform the market by 5-10%. However, this should be properly viewed as a consequence of the skewed policy of fascisms in favor of a few companies.

[6] The International Monetary Fund (IMF) has, in June 2004, indicated in its financial system stability assessment of Singapore that a competent judiciary is one of the cornerstones for Singapore's legal system, giving it top marks for the reliability of its legal, supervisory, and institutional framework.

In this article, we define a company to be politically connected if at least one member on its board of directors is (1) a former cabinet minister of the Singapore government,[7] (2) a serving or ex-member of parliament (MP) or (3) a current or former senior civil servant of the Singapore government. We investigate the relation between political connection and firm valuation within the context of newly listed companies from 1998-2006. We employ Tobin's Q as a proxy for the value of newly listed firms in Singapore for each of the three years after their issue and compare the differences in value between companies with and without political connection. We also explore the relationship between political connection, corporate governance, and firm value.

The results of this paper show that in a country such as Singapore, where political corruption is relatively low, political connection adds little to the value or performance of the company. However, upon further careful investigation, we find that in certain industries, political connection appears to be more important than in others. These are those that belong to industries that tend to be subject to more stringent government regulation such as electrical and electronic equipment (SIC 36), holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). There is evidence that companies in such industries may find that having directors who are politically connected could have a positive and significant impact on their firm's value. We further examine the characteristics of these firms and find that, among these firms, those with a politically connected Chairman/CEO or Senior Civil Servant on their board benefit the most in terms of a positive effect on firm value.

The remainder of this paper is organized as follows. In Section II, we present a brief introduction of corporate governance in Singapore. Section III reviews the prior literature on

[7] Currently serving ministers of the government are not permitted to sit on corporate boards. However, no such restrictions are imposed on members of parliament and senior civil servants.

political connection as well as develops the hypotheses. The sample data and research methodology are detailed in Section IV. Our research outcomes and results are documented in Section V. Section VI summarizes the study and provides some concluding remarks.

II. Background of Corporate Governance of Singapore

Following loosely the Anglo-American model, Singapore's corporate governance system revolves around capital market controls of managerial behavior (Prowse, 1998). The capital market in Singapore is thin (less than 500 listed companies were on the Singapore Stock Exchange in 2002, growing to about 800 firms in 2008), and equity is firmly held among a small group of investors including the government of Singapore, multinational and regional corporations, wealthy individuals, and entrepreneurial families. Government-linked corporations (GLCs) account for approximately 24% of the stock's market's total capitalization of US$287 billion and control over a tenth of the country's economic output (Ang and Ding (2006)). Therefore, any study of corporate governance in Singapore would not be complete without understanding the role and governance structure of Singapore's GLCs. Typically, GLC boards are populated by senior civil servants and political appointees, making board appointments an oblique method for monitoring or controlling corporate activities and business practices by the government. The government centered corporate governance system can be potentially effective if strong governance is regarded as keeping with effective industrial policy (Phan and Yoshikawa (2005)). To buttress this view, Singaporean GLCs have been shown to have higher valuations and better corporate governance than a control group of non-GLCs, even after controlling for firm specific characteristics such as profitability, leverage, firm size, and foreign ownership (Ang and Ding (2006)).

GLCs in Singapore are largely corporate investments by Temasek Holdings, which is a wholly owned government entity that prides itself for its ability to make investment decisions strictly on a commercial basis. Temasek's articulated policy with respect to GLCs is to play a key monitoring role in commercially viable and financially independent companies. Due to Temasek's stake in GLCs, it is possible that some politicians are appointed on behalf of Temasek. It may then be argued that these appointees, in protecting the interests of Temasek, also maximize share value, as long as: (1) Temasek does not influence the government to show favoritism at the expense of competitors, and (2) it is not possible for Temasek or its appointees to share in the private benefits of control.

There are a few anecdotes to reinforce the view that politically connected firms in Singapore do not enjoy favoritism from the government. For example, since April 2007, the postal sector has witnessed new players introduced to both domestic and international mail services, after a 15-year monopoly held by SingPost.[8] Also, the corporate tax rate is applied uniformly across all businesses and industries with the expectation that no firm is specially protected by the government to reap economic benefits.

III. Literature Review and Hypotheses Development

Political connection, or the lack thereof, is a double-edged sword; it can either enhance or jeopardize a firm's value. In China, Xu, Zhu, and Lin (2002) show that, when political control is curtailed, firm performance improves. This happens when there is a resulting increase in a firm's flexibility in labor deployment and in the enforcement of more effective corporate

[8] Mr. Lee Hsien Yang, the brother of Prime Minister Lee Hsien Loong, serves as an independent director on SingPost's board.

governance mechanisms. It is recognized, however, that some political appointees have conflicting objectives, such as maximizing employment or minimizing social costs, etc.

Likewise, politically connected CEOs may have a deleterious effect rather than being helpful to firm performance. Fan, Wong, and Zhang (2004) report that firms with politically-connected CEOs underperform those without political connection by 37%, when measured by their firms' three-year post-IPO stock returns. In addition, performance measures (such as market-to-book value and return on assets) of state- controlled firms are found to be negatively related to the level of state ownership (Fan, Wong, and Zhang (2007)). Similarly, evidence from 47 countries shows that politically connected firms underperform non-politically connected firms on an accounting basis, notwithstanding the fact that they are able to derive considerable benefits from their political connections (Faccio (2006)).

One possible explanation for the underperformance of politically connected firms is that, when politicians channel resources toward favored firms, it can lead to a distortion of incentives, misallocation of investments, and an increase in corrupt activities (Shleifer and Vishny (1994)). On the other hand, with political connection, a firm may increase in value if it manages to extract unfair economic rents at the expense of competitors and consumers (e.g., Faccio (2006)). However, when all or more of the increase in firm value is consumed by politicians and their connected managers, less of any remaining value would be available to shareholders. This is a form of agency problem where proper governance structures can help contain. A subtle point to note is that good governance, which aims to increase share value, does not equate to good citizenship. It is perfectly consistent for good governance firms to take advantage of political connection to increase share value under corrupt regimes.

If political connection were used as a prime determinant of profitability, it would induce distorted investment decisions (Faccio (2006)) and, consequently, lead to a lower firm value without it. There is evidence in Indonesia of firms facing difficulties in building connections with a new government when their patron falls from power, causing those firms to underperform under the new regime and subsequently to turn to foreign financing (Leuz and Oberholzer-Gee (2006)).

On the other hand, politically connected companies may benefit from easier access to debt financing, lower tax, and stronger market power (Faccio (2006)). For example, Friedman (1999) reports that bankers are often compelled to extend loans for projects undertaken by politically connected firms, even when they are forecast to be unprofitable, thus extracting rents from the banks. Such evidence, together with others (e.g., Johnson, Kochhar, Mitton, and Tamirisa (2006), Khwaja and Mian (2004), and Sapienza (2004)) provide further support that the discrepancy in the lending behavior of state-owned banks is affected by the electoral results of the party affiliated with the bank. Such actions represent a wealth transfer from citizens or consumers to the firm, leading to an increase in firm value.

Besides easier access to credit, politically connected firms may enjoy other forms of benefit. Some public officials and politicians may clandestinely sell underprovided goods and a spectrum of rent-generating advantages to individual firms, often allowing firms to shape the rules of the games to their advantage at considerable social cost (Hellman, Jones, and Kaufmann (2000)). Alternatively, directors may be appointed for their knowledge, experience with government procedures, and insights in government policy, their ability to persuade the government in favor of the firm's interest, or to forestall governmental action that is pernicious to the firm (Agrawal and Knoeber (2001)). Imai (2006) shows that powerful business groups

strive to directly hold influential public offices in order to change economic policies to their favor as companies with political connection are more likely to win a project tender because of the protection from corrupt politicians or bureaucrats. Thus, the award of government contracts to companies without basic qualifications, resources, and expertise is, not surprisingly, often linked to political parties (Donatella and Vannucci (1997)).[9]

It is evident that politically connected directors have the power and capability of bringing benefits to firms by influencing the laws under which their firms operate, as well as the possibility of winning government contracts for their firms and, in the process, enhance firm value. Crudely put, politically connected board members can either influence the transfer of wealth from competitors or consumers to their firms (Faccio (2006)) or corruptly extract economic rents from the firm for their personal gain. We test the following null hypothesis.

Hypothesis 1: In the absence of political corruption, political connections of firms have little or no effect on firm value.

[9] It is noted that companies that form political connections with government officials in order to obtain perks or preferential treatment are characteristic not only of countries traditionally labeled as corrupt, but many may also be found in countries known for their transparent systems. In the United States, about half of those who leave government jobs, including some who have served in Congress, end up working as lobbyists, who can command a higher remuneration. Oftentimes, as in Japan, they end up working for corporations that try to influence the decisions of government agencies they had left. These examples just demonstrate how imperfectly political corruption is measured. Many countries that have no corruption by bureaucrats and policemen, etc., nevertheless have politicians influenced by money spent on lobbying and campaign contributions by interested groups and firms.

The alternative to hypothesis 1 is that political connections of firms could lead to private gains to the firms' shareholders. In Singapore, offences from and sanctions on corruption are set out in the Prevention of Corruption Act, which is vigilantly enforced. Punishment on corruption includes a fine of up to S$100,000 or imprisonment for a term not exceeding seven years or both, in addition to other potential related criminal charges. With such stringent regulations in place to uphold the integrity of the business environment, it is therefore relatively difficult for directors to corruptly exploit their connections to bring economic benefits to their firms, or to abuse their position in the firm for their own personal economic, social or political interests. Thus, we hypothesize that firms are generally not expected to gain from their political connections. However, we leave open the possibility that some firms operating in a more highly regulated industry may deem it advantageous to appoint directors who are politically connected, but not corrupt, to their board. A low corruption government has two means of limiting the value of political connections to firms. One, it is more likely to appoint, or allow to be appointed, officials who are not corrupt onto corporate boards. Two, it would set up mechanisms to identify and punish corrupt officials.

We are not examining how corporate governance is affected by political connection. Rather, the relevant issue is whether a firm's desire to take advantage of their political connection can be increased or reduced with good/poor governance. As mentioned earlier, good governance should not be confused with good citizenship. With poor governance, managers share the spoils from their connections with politicians at the expense of shareholders.[10]

[10] A politically connected director who is highly influential may result in a conflict of interest when the director exploits the firm for his personal political, social, and economic interests, thereby directing benefits to himself. Chang and Wong (2004) show that the decision-making power of local party committees relative to managers is negatively associated with firm performance, suggesting that political costs associated with party control over

However, it is also consistent that good governance firms, in the pursuit of share value maximization, develop political connections and lobby politicians. Having established that the quality of corporate governance has no relevance to a firm's desire to use political connection for private gains of managers or shareholders, the relevant question is whether politically connected directors from low corruption countries can help improve corporate governance more than that of other independent outside directors. To give empirical content to this statement, we hypothesize that:

Hypothesis 2: In a low political corruption environment, politically connected directors have a neutral effect on the quality of corporate governance.

Alternatively, non-corrupt politically connected directors may act as monitors of their firm to ensure that good corporate governance practices are upheld.

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managers are more inimical to firm performance than are managers' agency problems. Fan, Wong, and Zhang (2007) report that a detailed examination of board composition at the time of an IPO shows that firms with politically connected CEOs are more likely to appoint bureaucrats to their management team and board of directors. At the same time, they appoint fewer directors with a germane professional background or prior business experience and do not appoint any representatives of minority shareholders. Such actions drastically lower the level of corporate governance as management ends up being monitored lightly so as to ease the scrutiny of their rent-seeking activities.

IV. Data and Methodology

A. Data and Sample Design

Underpricing is a common phenomenon in IPO that is followed by abnormally low returns in the long-run (see Ritter (1991)). IPOs allow us to investigate the wholesale introduction of all politically connected directors the first time the firms are introduced to the capital market. The design eliminates the need to adjust for the timing of an anticipation effect and the incremental value of a single appointee in later years.

The IPO data are obtained from the Securities Data Corporation (SDC) Global New Issue database and covers all IPOs during 1998-2006. We use the SDC database to obtain basic information on offer dates, offer prices, the number of shares issued, net proceeds, and the number of lead and co-lead managers. Prior to the IPO, we extract the latest financial information, such as total assets, total liabilities, net income, and debt-to-asset ratio from the individual firms' IPO prospectus. Post IPO, financial data such as total assets, current assets, current liabilities, long-term debt, preferred stock, and market value of common equity are obtained from the Thomson One Banker database. From the IPO prospectus, we obtain the profile of each director. A total of 2,540 directors are covered in the sample of 387 listed companies. We manually identify directors that are politically connected according to the definition described in Section I.

Table I presents summary descriptive statistics of the entire sample of newly listed companies. Panel A, B, and C contain their offer, firm, and corporate governance characteristics, respectively. On average, the sample firms offer 74.18 million shares in their IPO, garnering net proceeds of $21.06 million each. We note that PC firms, on average, issue 63.6 million shares which is less than those issued by non-PC firms. The median difference of these two numbers is

statistically significant at the 10% level. The net proceeds raised by PC firms also tend to be lower than those of non-PC firms. The average offer price is $0.47 with a mean offer-to-close returns of 24%. On average, there are 1.33 underwriters per issue. Firm characteristics are described in Panel B. We note that the market value of each firm's equity averages $183.75 million with an average of 355.79 million shares outstanding. PC firms have average total assets valued at $124.5 million whereas the corresponding figure for non-PC firms is a higher at $211.8 million. The market value of PC firms at the time of IPO is also lower than that of non-PC firms.

In Panel C, we report that the management of PC firms on average own 44.5% of their firms compared to 41% of non-PC firms. The average number of executive directors among PC firms is 2.78 compared to 2.90 for non-PC firms. PC firms report a significantly lower number of chairmen who also serve as CEOs than non-PC firms. The average age of the directors is 46.6 years with those of PC firms being slightly older. Overall, compared to non-PC firms, PC firms tend to be of a smaller size with a higher degree of management ownership and have older directors. The evidence from Table I shows that PC firms have a higher (though not statistically significant) percentage of management ownership of the firm's equity and are of a smaller size (again not statistically significant) in terms of IPO proceeds, asset size, and market value at the time of IPO. Firms with such characteristics may typically be expected to have a lower valuation compared to larger firms and those that have a lower percentage of management ownership. However, the presence of PC directors appears to have somewhat neutralized such effects with their association with better corporate governance practices such as non-duality in their Chairman and CEO, and fewer executive directors.

[Insert Table I here]

The sample consists of 161 politically connected companies and 226 non-politically connected companies that are newly listed over a 9-year period from 1998-2006. This translates to 41.60% of the sample IPO companies that are deemed to have political connection. In addition, from the profile of the 212 politically connected directors that have been identified, we document in Table II that 74.5% of these are acting as independent directors on the board. Moreover, 34.0% are current political appointees and 19.3% are former political appointees, 15.6% are politically connected chairmen, 21.2% are former cabinet ministers in the Singapore government, 2.4% are either military leaders or ambassadors of Singapore, while members of the parliament account for 54.7% of politically connected directors. It is noted that current serving ministers are not permitted to sit on corporate boards.

[Insert Table II here]

Table III presents the background of politically connected directors, including their age, business-related education and work experience, and the number of directorships that they hold. We note that current (former) political appointees on corporate boards have worked a median total of 24 (27) years, 11 (16) of which were spent in government or in the senior civil service. This implies that politically connected directors have had a total of 11 to 13 years of business and professional experience which is not insignificant.[11] Such experience may be attractive to firms operating in certain highly regulated industries.

[Insert Table III here]

[11] The corresponding background experience of directors of non-politically connected firms is not complete nor consistently available. Thus, comparisons between the two types of firms cannot be properly made,

B. Firm Valuation Using Tobin's Q

Tobin's Q is an important and widely accepted measure of corporate performance. As such, we make use of it as a proxy for firm value, which is the ratio of the market value of a company's assets (measured by the market value of outstanding stock and debt) to the replacement costs of the company's assets, and is approximated by:

$$Q = \frac{MV(CS) + BV(PS) + BV(CL) + BV(LTD) - BV(CA)}{BV(TA)} \quad (1)$$

where MV(CS) is the market value of common shares, BV(PS) the book value of preferred shares, BV(CL) the book value of current liabilities, BV(LTD) the book value of long term debt, BV(CA) the book value of current assets, and BV(TA) the book value of total assets. This simplified Q measure has been shown to account for at least 96.6% of the variability of Tobin's Q (Chung and Pruitt, 1994). A Tobin's Q that is greater than one indicates that the company has a market value greater than its recorded assets, which can be attributed to intellectual capital or positive market sentiment of the company. As such, a higher Tobin's Q value is associated with superior firm value.

We compute the industry-adjusted Tobin's Q. Specifically, we subtract the industry median Tobin's Q based on 2-digit SIC code from the sample firm's Tobin's Q. By doing this, we are able to detect whether the sample firm outperforms the industry and, at the same time, control for any industry-related biases.

C. Methodology

We employ both univariate and multivariate analyses to test our hypotheses. We examine the association between firm value and political connection by performing linear

regressions on Tobin's Q for each of the three years and median of three years after an IPO against alternative political connection definitions. We run the following main regression:

$$(2) \quad Value = \beta_0 + \beta_1 Polconnect + \beta_2 Duality + \beta_3 Independent + \beta_4 Dirage + \beta_5 Underpricing + \beta_6 Leverage + \beta_7 Exchange + \beta_8 GLC + \beta_9 Mktval + \varepsilon$$

where the dependent variable, *Value*, refers to the industry-adjusted Tobin's Q of the firm one, two, and three years after IPO listing and the median industry-adjusted Tobin's Q over the three years. *Polconnect* refers to political connection measured by the ratio of the number of politically connected directors to the total number of board members. Control variables used in the regression models are as follows. *Duality* refers to the presence of a CEO who is also the chairman. *Independent* refers to the percentage of directors on the board who are outside directors. *Dirage* is the average age of directors. *Underpricing* is the offer-to-close return computed as the difference between the first trading day's closing and offer price as a percentage of the offer price. *Leverage* is measured by the debt-to-asset ratio. *Exchange* is a dummy variable which takes on the value of one if a firm is listed on the SGX main board, and zero otherwise. *GLC* is a dummy variable with a value of one if it is a subsidiary of Temasek, and zero otherwise.[12] *Mktval* refers to the natural logarithm of market value defined as the first day's closing price multiplied by the number of shares outstanding after the IPO.

In addition to the inclusion of several control variables, robustness checks are performed using a number of alternative definitions of political connection. These include using political

[12] These are government-linked companies (GLC) in which Temasek Holdings, the investment holding arm of the Singapore Government, has at least a 20% stake. Examples of GLCs include some of the largest companies in Singapore such as Singtel, DBS Bank, Singapore Airlines, PSA International, SMRT Corporation, Singapore Power, and Neptune Oriental Lines. In our IPO sample, the GLC firms include Chartered Semiconductor Manufacturing, Singapore Airport Terminal Services, Singapore Post Ltd., Olam International Ltd., etc.

connection as a dummy variable, which takes on the value of one when at least one director is politically connected, and taking the natural logarithm of the number of politically connected directors. Additionally, in place of these variables, we employ dummy variables to reflect the status of directors as current or former political appointees.

The control variables included in this study are supported by previous research (see, for example, Ang and Ding (2006), Chong and Lopez-de-Silanes (2006), and Leuz and Oberholzer-Gee (2003)) and can be grouped into two categories. (1) Firm specific control variables, such as firm size and leverage. These include *Mktval*, which is the natural logarithm of a firm's first day post-IPO market value, used as a measure of firm size. *Leverage* is used as a proxy for mapping the risk profile of a company. (2) Control variables that capture differences in corporate governance among the firms. A GLC dummy takes on a value of one when a company is government-linked, and zero if otherwise. It is noted that GLCs have been shown to provide superior returns (on both assets and equity) and are valued more highly through their better management of expenses than non-GLCs (Ang and Ding (2006)).[13]

In order to examine the effect of corporate governance on firm value while considering a firm's level of political connection, two variables, the percentage of independent directors and duality, are used as governance proxies. Director independence is an indicator of the presence of a strong and independent board, whereas duality illustrates an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision-making if the chairman and CEO positions are held by separate persons. With an effective board, the opportunities for controlling shareholders and management to expropriate funds will, hopefully, be reduced.

[13] Investors in the Singaporean market appear to value the higher standards of corporate governance found in GLCs.

V. Results and Analysis

A. Univariate Analysis

Using independent t-tests and Wilcoxon signed ranks tests, we examine the differences in means and medians, respectively, of the industry-adjusted Tobin's Q valuation for one, two, and three years after an IPO and the median industry-adjusted Tobin's Q over all three years after an IPO listing between politically connected firms and those that are not politically connected. The findings for industry-adjusted Tobin's Q valuation are presented in Table IV, which shows that industry-adjusted Tobin's Q is not statistically significant between the two groups. This suggests that political connection does not necessarily contribute to a higher firm value and that the benefits that such a connection might bring appear to be limited, supporting Hypothesis 1.

[Insert Table IV here]

The abnormal stock returns of politically and non-politically connected firms for one, two, and three years after an IPO are shown in Table V. The mean and median values show that abnormal stock returns of politically connected firms do not outperform non-politically connected firms up to three years after an IPO as both the results of the t-test and Wilcoxon signed ranks test are not statistically significant. Again, our evidence does not support shareholders having benefitted from the appointment of politically connected directors.

[Insert Table V here]

We examine the differences in accounting performance of the politically connected and non-connected firms and report the median values of the profit margin, cash flows from operating, ROA, ROE, and ROIC for 1, 2, 3 years, and the median 3-year post IPO in Table VI. In general, from the results in Panel A, we do not find any significant differences in the

accounting performance between the two types of firms. However, if we limit the sample to the more regulated industries only, the results in Panel B show that the profit margin and cash flow from operations in the one-year post-IPO period is significantly higher among PC firms than non-PC firms. These findings indicate that politically connected directors are associated with indicators of profitability and firm value within the first year of an IPO among firms that are more highly regulated.

[Insert Table VI here]

B. Multivariate Analysis

The initial results (not reported) of ordinary least squares (OLS) regressions using industry-adjusted Tobin's Q (a proxy for firm value for each of the three years and the median of the three years after an IPO listing) as the key dependent variable show that political connection, which is expressed as a percentage of politically connected directors on the board, does not have a strong predictive power in explaining firm value. Political connection is found to be not statistically significant in explaining industry-adjusted Tobin's Q over various years. We therefore cannot reject hypothesis 1 that political connection is not associated with firm value. Similar results (not reported) are obtained when the political connection percentage variable is replaced by a political connection dummy variable and the natural logarithm of the number of politically connected directors.

However, upon further investigation, when we break down the sample according to the two-digit SIC, we find that, in certain industries, political connection appears to be more important than in others. These are those that belong to industries that tend to be subject to more stringent government regulation such as electrical and electronic equipment (SIC 36), Holding

and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30).[14] The findings for these industries (Table VII) show that the interaction between political connection and a particular industry is significant at least at the 10% level in its three-year median industry-adjusted Tobin's Q. As these industries carry higher regulatory risks, such as not knowing the appropriate regulations, their interpretation, and/or procedures to observe them, etc., PC directors may play the role of helping firms alleviate/mitigate these risks by providing the appropriate advice, while being mindful of any potential conflicts of interests. Our results reveal that companies operating in these industries have a positive and significant addition to their firm value due to their political connection based on the three-year median post-IPO industry-adjusted Tobin's Q. The results using abnormal stork returns (Table VIII) largely corroborate with those of the industry-adjusted Tobin's Q.

[Insert Table VII and VIII here]

Given the existence of stringent laws (*viz* the Prevention of Corruption Act) that are strictly enforced, with its attendant criminal and civil penalties against corruption in Singapore, together with the country's high ranking in Transparency International's *Corruption Perceptions Index*, it is highly probable that any corrupt official will be very quickly brought to task. As documented earlier, since PC directors are associated with better governance practices, their presence on corporate boards may thus compel firms to better adhere to the appropriate regulations. We are not claiming that PC firms do not receive government contracts or any

[14] Industries that are subject to a more stringent regulatory environment are: Electronic and electronic equipment (SIC 36) which is governed by the Infocomm Authority of Singapore's Electronic Transactions Act; Holding and other investment offices (SIC 67) which is regulated by the various securities and financial acts of the Monetary Authority of Singapore; General building contractors (SIC 15), by the Building and Construction Authority; Food and kindred products (SIC 20), through the Agri-Food and Veterinary Authority; and Rubber and miscellaneous plastics products (SIC 30), by the Rubber Association of Singapore, among others.

preferential treatment. Rather, by virtue of their being perceived as having good governance under a low corruption environment and which observe government regulations, such companies are likely to be attractive to both private businesses and governments for suitable business alliances. Our findings provide evidence that it is possible for political connection to be independent of corruption.

The results for governance show that *Duality* is negatively and significantly related to industry-adjusted Tobin's Q in the second year post-IPO, whereas *Independent* is positive and significant for the median of the three years industry-adjusted Tobin's Q after an IPO. *Dirage* is negative and significant for the one year industry-adjusted Tobin's Q post-IPO. We also investigate the interaction effect between political connection and two governance variables (duality and board independence) and find insignificant results (not reported). This implies that politically connected firms in a low corruption environment, regardless of their corporate governance, do not reduce firm value, supporting hypothesis 2.

For greater robustness of our results, we have allowed for finer classifications of political connection (see Table II), that is, we further divide these PC directors into: politically connected chairman/CEO, current political appointees, former political appointees, members of parliament, former ministers, and senior civil servants. The regression results (Tables IX and X) for each type of political connection show that such connections add little to firm value. In Table IX and X, besides investigating the value effects of different political connection classifications, we include a dummy variable, *Reg Ind*, that represents the five regulated industries identified in Table VII to have a significant contribution to the value of firms with PC directors. We find from the Tobin's Q results in Table IX that firms with politically connected chairmen or CEOs are associated with a significant positive value effect. From Table X, Senior Civil Servants

contribute to a significant positive abnormal return three years post-IPO. All other forms of political connection have either a very weak or no impact on firm value.

[Insert Table IX and X here]

Further analysis of the five regulated industries (see Table XI) reveals that, compared to firms that have no political connection within the same industries, PC firms have a smaller board size, less occurrence of duality in the Chairman-CEO, a larger independent directors-to-board size ratio, a smaller percentage of executive directors, slightly older directors, a larger percentage of management ownership, and a higher proportion of GLCs. These differences, though not statistically significant, provide anecdotal evidence of the composition of PC boards.

[Insert Table XI here]

We further investigate the impact from a major event: a change in Singapore's Code of Corporate Governance, which was issued July 14, 2005, requires all listed companies to disclose their corporate governance practices and explain deviations from the Code in their annual reports for AGMs held from January 1, 2007 onwards. Our results on the announcement effect reveal that PC directors do not add value to their firms both before and after the imposition of the new disclosure requirement. However, as shown in Table XII, after controlling for the presence of PC directors, firms in the more highly regulated industries appear to have a statistically significant impact on firm value as measured by the industry-adjusted Tobin's Q.

[Insert Table XII here]

We provide results of a logistic regression in Table XIII to reflect the demand for politically connected directors. The coefficient for director age is found to be positively significant. This means that PC firms have directors that are more experienced in guiding their firms than non-PC firms. PC firms also appear to have stronger corporate governance as

evidenced by their lower likelihood of duality in their Chairman/CEO and a smaller percentage of executive directors.

[Insert Table XIII here]

On the whole, the results show that, in Singapore, political connection in a non-corrupt regime in general does not affect firm value. However, firms in industries that are more highly regulated appear to receive some benefit in terms of higher firm valuation from their political connections. In particular, companies with a politically connected Chairman/CEO or Senior Civil Servant on their board benefit the most in terms of a positive effect on firm value. PC firms, by virtue of their being perceived as having good governance under a low corruption environment and which observe government regulations, such companies may be attractive business partners to other businesses and governments.

VI. Summary and Conclusions

Political connection is a double-edged sword. On the one hand, firm value can be jeopardized if exploiting such connections distort incentives, misallocate investment, and increase the extent of corruption (Shleifer and Vishny (1994)). On the other hand, politically connected companies may benefit through easier access to debt financing, lower tax, and stronger market power (Faccio (2006)). Although the effect of political connections has been previously investigated, our contribution is to examine for the first time the impact of politically connected directors on the value of firms operating in an environment where the perceived level of corruption is comparatively low, that is due to better institution that is not confounded by favorable social and cultural factors. Singapore is ideal for the study as it is not only among the countries with the lowest level of corruption, it is also free of confounding factors such as an

innate culture among other countries with the lowest political corruption. We study this issue at a firm's inception (i.e., at IPO) where most of the new politically connected directors are appointed at the same time and their impact, if any, has not been anticipated as would be the case at any arbitrary time after an IPO.

We study the effect of political connection on the value of a company in a low political corruption environment by examining the industry-adjusted Tobin's Q and the excess returns of newly-listed companies from 1998 to 2006. Firm value, within three years from the issue of an IPO, is found largely to be independent of a firm's political connection, even after controlling for differences in corporate governance and firm characteristics. Importantly, such connections do not reduce firm value. However, when the sample is broken down in terms of industry, we find that firms operating in a more highly regulated environment appear to receive some benefit of a higher firm valuation from their political connection, especially among those with a politically connected Chairman/CEO or Senior Civil Servant on their board. As PC directors have been shown to be associated with better governance practices, their presence on corporate boards may thus compel firms to better adhere to government regulations. Thus, because they are perceived as having good governance under a low corruption environment and which observe government regulations, other firms and governments may be attracted to forming business relationships with PC firms.

We find that firms with politically connected directors are associated with good governance practices such as non-duality in their Chairman and CEO and fewer executive directors. We show that PC firms have higher managerial ownership and tend to be smaller than non-PC firms. Firms with such characteristics may typically be expected to have a lower valuation compared to those that are larger or have a lower percentage of management ownership.

Our results show that the presence of PC directors appears to have somewhat neutralized any negative effects with its association with better corporate governance. Thus, having a politically connected director on the board may be used as a signal by a firm to investors that it is subject to adequate appropriate monitoring mechanisms. As the supply of good candidates for outside independent directors is often limited, firms would be inclined to invite such "politicians" to serve on their board, not because of their political connections and potential economic payoffs but as a means of expanding their list of good candidates for independent directors.

In conclusion, this study suggests that, despite the lack of strong economic value that political connection *per se* brings to firms, politically connected directors may still contribute to the firm when they serve as independent directors within a non-corrupt political environment. We provide evidence that companies in certain highly regulated industries may find that having certain types of directors who are politically connected could have a positive and significant impact on their firm's value.

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Table I. Descriptive Statistics of Politically- and Non-Politically-Connected

This table presents the mean and median values of the offer, firm and corporate governance characteristics of politically- and non-politically-connected in panel A, B and C, respectively. In panel A, we report the offer characteristics, i.e., shares offered, net proceeds, offer price, offer to close return, and number of underwriters. In panel B, we report the firm characteristics such as net sales, total assets, total liabilities, debt-to-assets, ROA, EPS, market value, and shares outstanding. In panel C, we report institutional ownership, management ownership, number of board members, number of independent directors, number of chairman-ceo (duality), number of executive directors, age of directors, and government linked corporation (GLC). t-statistics and z-statistics based on Wilcoxon signed ranks test are used for the test of differences in the mean and median, respectively. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively.

	Total		Politically-Connected		Non-Politically Connected		Difference (Politically – Non-Politically)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Panel A Offer Characteristics								
Shares Offered (million)	74.175	44.400	63.618	39.100	77.706	46.013	-14.087	-6.913*
Net Proceeds (US$ million)	21.055	6.937	18.343	6.466	21.963	7.049	-3.620	-0.583
Offer Price (S$)	0.472	0.260	0.621	0.260	0.422	0.260	0.199	0.000
Offer to Close Return	0.238	0.114	0.229	0.068	0.241	0.116	-0.013	-0.048
Number of Underwriters	1.331	1.000	1.330	1.000	1.331	1.000	-0.001	0.000
Panel B Firm Characteristics								
Net Sales (S$ million)	84.804	37.620	80.490	40.825	107.456	38.675	-26.966	2.150
Total Assets (S$ million)	178.414	34.457	124.460	35.279	211.818	35.936	-87.358	-0.658
Total Liabilities (S$ million)	85.714	18.218	58.977	18.731	100.789	19.520	-41.812	-0.788
Debt-to-Assets	0.282	0.236	0.244	0.225	0.300	0.254	-0.057**	-0.030
ROA	0.285	0.130	0.173	0.131	0.306	0.127	-0.133	0.005
EPS (S$)	4.403	2.930	3.689	2.995	4.999	2.915	-1.311	0.080
Market Value (S$ million)	183.748	68.901	162.729	69.163	214.713	71.058	-51.984	-1.895
Shares Outstanding (million)	355.785	202.948	283.573	206.975	399.145	219.853	-115.572	-12.878
Panel C Corporate Governance Characteristics								
Institutional Ownership	0.486	0.536	0.475	0.510	0.496	0.550	-0.021	-0.040
Management Ownership	0.426	0.4141	0.445	0.447	0.410	0.375	0.035	0.072
No. of Board Members	6.563	6.000	6.515	6.000	6.684	6.000	-0.169	0.000
No. of Independent Directors	2.416	2.000	2.417	2.000	2.472	2.000	-0.055	0.000
No. of Chairman-CEO (Duality)	0.615	1.000	0.505	1.000	0.623	1.000	-0.118**	0.000**
No. of Executive Directors	2.920	3.000	2.777	3.000	2.896	3.000	-0.119	0.000
Age of Directors	46.576	47.000	47.859	48.000	46.382	46.000	1.477***	2.000***
GLC	0.040	0.000	0.040	0.000	0.039	0.000	0.001	0.000

Table II. Types of Politically Connected Directors

This table reports the number of directors and number of firms for different types of politically-connected directors based on 387 IPO firms from 1998 to 2006. Current (Former) political appointees are currently (previously) serving in government. Politically connected chairmen or independent directors are those who are related to the government. Members of Parliament (MPs) include directors who are current or former MPs elected as the peoples' representative in the parliament. Former ministers are directors who have previously served in a cabinet position. Senior civil servants include senior military personnel, permanent secretaries and parliament secretaries working in their respective ministries. The percentage values in parentheses measure the ratio of each type of directors to the total number of politically-connected directors or each type of firm to the total number of politically-connected firms.

Types of Political Connection	No. of Directors (%)	No. of Firms (%)
N	106 (100%)	97 (100%)
Current Political Appointees	38 (36%)	35 (36%)
Former Political Appointees	96 (91%)	67 (69%)
Politically Connected Chairmen	14 (13%)	14 (14%)
Politically Connected Independent Directors	94 (89%)	80 (82%)
Members of Parliament (MPs)	94 (89%)	81 (84%)
Current	37 (35%)	31 (32%)
Former	34 (32%)	30 (31%)
Former Ministers	23 (22%)	23 (24%)
Senior Civil Servants	17 (16%)	17 (17%)
Current	1 (1%)	1 (1%)
Former	16 (15%)	16 (16%)

Table III. Background of Politically-Connected Directors

This table reports the backgrounds of the different types of politically-connected directors. We collect the directors' backgrounds from the IPO prospectus including years served in politics, years of work experiences, number of present directorships as at IPOs, number of past directorships prior to IPOs, age of directors, business-related education and business-related industry experience.

	Current Appointees		Former Appointees		Current & Former MPs		Former Minister		Senior Civil Servants	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Years Served in Politics	10.97	11.00	16.79	16.00	14.79	16.00	20.11	21.00	21.06	28.00
Years of Work Experiences	23.45	23.50	24.88	26.50	23.48	23.00	27.73	30.00	30.65	30.00
No. of Present Directorships	12.40	11.00	15.72	12.00	15.24	12.00	17.99	14.00	9.76	8.00
No. of Past Directorships	9.28	7.00	13.05	6.00	11.60	6.00	16.34	9.00	10.18	6.00
Age of Directors	46.76	47.00	57.39	58.75	53.03	53.00	60.09	61.00	62.41	64.00
	Number of Firms		Number of Firms		Number of Firms		Number of Firms		Number of Firms	
Business-Related Education	14		45		50		19		13	
Business-Related Industry Experience	21		38		50		15		12	

Table IV. Firm Value in Post IPO Years

This table reports the mean and median of the industry-adjusted Tobin's Q for politically and non-politically connected firms in the post-IPO years, specifically, one, two, and three years after an IPO. Post Median refers to the median industry-adjusted Tobin's Q for all three post–IPO periods. Tobin's Q is computed based on the Chung and Pruitt (1994) method as follows.

$$Q = \frac{MV(CS) + BV(PS) + BV(CL) + BV(LTD) - BV(CA)}{BV(TA)}$$

where MV(CS) is the market value of common shares, BV(PS) the book value of preferred shares, BV(CL) the book value of current liabilities, BV(LTD) the book value of long term debt, BV(CA) the book value of current assets, and BV(TA) the book value of total assets. We compute the industry-adjusted Tobin's Q by subtracting the industry median from the sample firm's industry-adjusted Tobin's Q. t-statistics and z-statistics based on Wilcoxon signed ranks test are in the parentheses for mean and median, respectively.

		Politically Connected	Non-Politically Connected	Difference
1-year	mean	0.30	0.17	0.13
				(0.75)
	median	0.10	0.09	0.01
				(0.35)
	N	61	199	
2-year	mean	0.27	0.07	0.20
				(0.77)
	median	0.03	0.01	0.02
				(0.43)
	N	63	193	
3-year	mean	0.46	0.21	0.25
				(0.72)
	median	0.10	0.08	0.02
				(0.53)
	N	58	170	
Post Median	mean	0.23	0.08	0.15
				(0.23)
	median	-0.04	-0.002	-0.038
				(-0.15)
	N	48	154	

Table V. Cumulative Abnormal Returns in Post IPO Years

This table reports the mean and median of the cumulative abnormal returns for political- and non-political-connected firms in post-IPO years. Specifically, we compute the buy-and-hold abnormal returns for 1-, 2- and 3-year after IPO. The abnormal return is the difference between the daily returns and the market returns. The market return is computed based on the Singapore Straits Times Index (STI). t-statistics and z-statistics based on Wilcoxon signed ranks test are in the parentheses for mean and median, respectively. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively.

		Politically Connected	Non-Politically Connected	Difference
1-year	mean	-0.17	-0.20	0.03
				(0.55)
	median	-0.24	-0.20	-0.04
				(-0.49)
	N	75	234	
2-year	mean	-0.35	-0.33	-0.02
				(-0.16)
	median	-0.52	-0.48	-0.04
				(-0.20)
	N	54	195	
3-year	mean	-0.51	-0.44	-0.07
				(-0.67)
	median	-0.65	-0.72	0.07
				(0.91)
	N	34	129	

Table VI. Accounting Performance of Politically and Non-Politically Connected IPOs

This table reports the median values of the accounting variables for politically and non-politically connected firms in the post-IPO years, specifically, one, two, and three years after an IPO. Post Median refers to the median for all three post–IPO periods. The accounting variables include profit margin, cash flows from operating, Return on Assets (ROA), Return on Equity (ROE), and Return on Invested Capital (ROIC). Z-statistics based on Wilcoxon signed ranks test is used for the median test between politically and non-politically connected firms.

		Politically Connected	Non-Politically Connected	Wilcoxon Signed Ranks Test
Panel A: Full Sample				
Profit Margin	1-year	7.395	7.930	0.783
	2-year	5.695	4.935	0.826
	3-year	4.645	3.960	0.633
	post median	5.970	5.480	0.661
Cash Flows from Operations	1-year	1.905	1.930	0.468
	2-year	2.560	2.235	1.411
	3-year	2.440	2.130	0.430
	post median	1.780	1.665	0.041
ROA	1-year	8.760	7.850	0.430
	2-year	5.730	6.390	-0.495
	3-year	4.745	5.080	-0.287
	post median	4.940	5.525	-0.537
ROE	1-year	14.600	13.030	0.577
	2-year	9.640	10.555	0.181
	3-year	7.675	7.930	0.076
	post median	7.940	8.480	0.046
ROIC	1-year	11.720	10.365	0.190
	2-year	7.920	8.010	-0.502
	3-year	5.950	7.480	-0.554
	post median	6.920	7.675	-0.692
Panel B: Regulated Industries				
Profit Margin	1-year	4.700	2.970	1.603*
	2-year	1.688	-0.198	0.908
	3-year	-0.063	0.135	0.131
	post median	0.766	0.290	0.597
Cash Flows from Operations	1-year	4.950	-1.965	2.013**
	2-year	0.298	-1.668	0.908
	3-year	-1.450	-1.743	0.090
	post median	-1.160	-1.620	0.682
ROA	1-year	4.663	2.730	0.686
	2-year	1.680	-0.090	0.528
	3-year	-0.230	-0.850	0.475
	post median	0.694	-0.188	0.203
ROE	1-year	3.265	0.588	0.881
	2-year	3.420	-1.545	0.979
	3-year	1.145	-4.890	1.247
	post median	2.585	-2.085	1.116
ROIC	1-year	3.495	2.960	0.227
	2-year	1.290	-1.380	0.825
	3-year	-0.108	-2.843	1.030
	post median	0.410	-0.734	0.475

Table VII. Regression Results of Industry-Adjusted Tobin's Q

This table presents the regression results for the abnormal firm value. The industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. The industry classification is based on the 2-digit SIC code. The dependent variables *AQ_post1yr*, *AQ_post2yr*, *AQ_post3yr* and *AQ_median* are the industry-adjusted Tobin's Q in post-IPO one, two, three years, and the median industry-adjusted Tobin's Q over three years, respectively. *Polconnect* is the dummy variable which takes the value of 1 if the director is politically-connected; otherwise 0. *Independent* is the percentage of independent directors on the board. *Duality* occurs when the chairman is also the CEO. *Independent* refers to outside unrelated directors. *Dirage* is the average age of the firm's directors. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *Leverage* is total debt divided by total assets. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *Industry 1, 2, 3, 4, 5, 6 ,7, 8, 9* and *10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50 and 35, respectively; otherwise 0. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using White heteroskedasticity-consistent t-statistics.

	AQ_post1yr		AQ_post2yr		AQ_post3yr		AQ_median	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Intercept	5.782**	6.137**	9.214	9.659	0.973	1.226	-0.502	-0.249
Polconnect	0.884	0.681	0.801	0.032	0.930	0.382	0.265	-2.772
Duality	-0.170	-0.087	-0.375**	-0.356*	-0.256	-0.210	-0.257	-0.187
Independent	-0.098	-0.241	0.006	-0.073	1.348	1.220	2.056*	1.970**
Dirage	-1.785***	-1.922***	-2.502	-2.630	-0.835	-0.902	-0.150	-0.166
Underpricing	0.037	0.057	-0.419*	-0.420*	-0.143	-0.112	-0.041	0.039
Leverage	0.001***	0.001***	-0.340	-0.395	0.672	0.595	0.515	0.458
Exchange	0.001	-0.018	-0.183	-0.178	0.077	0.072	-0.074	-0.114
GLC	-0.186	-0.186	0.141	0.146	0.004	0.017	0.092	0.215
Market Value	0.123**	0.140**	0.118	0.130*	0.168*	0.176*	0.040	0.038
Industry1	-0.036	0.010	-0.098	-0.230	-0.259	-0.372*	-0.192	-0.486**
Industry2	-0.089	-0.115	-0.218	-0.289	-0.377*	-0.451**	-0.271	-0.470
Industry3	-0.352	-0.840***	-0.739***	-0.967***	0.096	-0.268	-0.118	-0.642
Industry4	-0.049	-0.222*	-0.520	-0.692	-0.804**	-0.901**	-0.452	-0.573
Industry5	0.317	0.474*	0.082	0.250	0.024	0.187	0.147	0.142
Industry6	-0.121	-0.173	-0.035	0.118	0.165	0.196	0.098	-0.609*
Industry7	-0.011	0.031	-0.083	-0.138	-0.172	-0.211	0.048	-0.144
Industry8	0.475	0.444	-0.376	-0.638*	-0.588**	-0.748***	-0.408	-0.610**
Industry9	-0.170	-0.137	-0.273**	-0.273*	-0.382**	-0.329**	-0.488**	-0.598***
Industry10	0.361	0.400	0.116	0.098	-0.128	-0.161	0.136	-0.049
Polconnect*Industry1		-1.130		2.579		2.106		6.260*
Polconnect*Industry2		0.517		2.610		2.918		5.183*
Polconnect*Industry3		10.943*		4.884		11.746		15.949
Polconnect*Industry4		1.964		2.414		1.178		2.839
Polconnect*Industry5		-2.160		-1.779		-1.889		1.223
Polconnect*Industry6		0.420		-1.437		-0.118		8.835**
Polconnect*Industry7		-1.465		1.135		0.919		4.586**
Polconnect*Industry8		1.002		4.572		2.007		4.555*
Polconnect*Industry9		-1.147		-0.086		-2.344		1.843
Polconnect*Industry10		-2.218		0.025		0.672		3.805
Adj. R^2	0.033	0.072	0.053	0.031	-0.019	-0.033	-0.049	-0.037
F-Statistic	1.45*	1.67**	1.72*	1.27	0.79	0.76	0.52	0.76
N	252	252	246	246	219	219	195	195

Table VIII. Table Regression Results of Abnormal Stock Returns

This table presents the regression results for the buy and hold abnormal stock returns. The abnormal return is measured by the sample firm's stock return minus the market return proxied by the Straits Times Index (STI) in Singapore. The dependent variables *XRET1*, *XRET2*, *XRET3* are the buy and hold abnormal stock returns compounding in post-IPO one, two, and three years, respectively. *Polconnect* is the dummy variable which takes the value of 1 if the director is politically-connected; otherwise 0. It is proxied by politically-connected chairman/CEO, current political appointees, former political appointees, member of parliaments, former ministers, and military and senior civil servants in model 1 to 6. *Duality* occurs when the chairman is also the CEO. *Independent* is the percentage of independent directors on the board. *Dirage* is the average age of the firm's directors. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *Leverage* is total debt divided by total assets. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *Industry 1, 2, 3, 4, 5, 6 ,7, 8, 9* and *10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50 and 35, respectively; otherwise 0. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using White heteroskedasticity-consistent t-statistics.

	XRET1		XRET2		XRET3	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Intercept	0.787	-0.961	-2.791*	-2.759*	-2.414	-2.047
Polconnect	0.249	-0.162	-0.273	-1.444***	-0.738	-1.592*
Duality	0.096**	0.107***	0.008	0.051	-0.173	-0.138
Independent	0.152	0.101	-0.542	-0.603*	-0.250	-0.222
Dirage	-0.260	-0.173	0.171	0.218	0.140	0.125
Underpricing	-0.146***	-0.130***	-0.216**	-0.170*	-0.257*	-0.234*
Leverage	-0.0004***	-0.0003***	-0.001**	-0.001**	-0.016	-0.027
Exchange	0.069	0.057	-0.016	-0.004	-0.248*	-0.243**
GLC	-0.098	-0.074	-0.211	-0.203	-0.703**	-0.658**
Market Value	0.132***	0.121***	0.200***	0.184***	0.185***	0.158***
Industry1	-0.023	-0.014	-0.236*	-0.279*	-0.372**	-0.396*
Industry2	-0.078	-0.149**	-0.293**	-0.401***	-0.390**	-0.418***
Industry3	-0.096	-0.088	-0.353***	-0.504***	-0.307**	-0.459***
Industry4	-0.044	-0.160	-0.131	-0.270*	0.493	0.453
Industry5	-0.137	-0.093	-0.204	-0.259	-0.201	-0.281*
Industry6	0.198	0.232	-0.194	-0.254	-0.499***	0.143
Industry7	-0.047	-0.213**	-0.060	-0.307	-0.280*	-0.453***
Industry8	-0.028	-0.099	-0.238*	-0.269	-0.170	-0.151
Industry9	-0.081	-0.114*	-0.307***	-0.382***	-0.176	-0.284**
Industry10	-0.160**	-0.183**	-0.230	-0.329	-0.238	-0.253
Polconnect*Industry1		-0.513		0.377		-0.050
Polconnect*Industry2		1.984***		3.446**		0.391
Polconnect*Industry3		-0.498		4.345**		2.969**
Polconnect*Industry4		1.623*		2.625**		1.162
Polconnect*Industry5		-0.415		1.008		1.284
Polconnect*Industry6		-0.115		1.371		-1.243
Polconnect*Industry7		4.975*		5.908**		6.255***
Polconnect*Industry8		1.235*		0.752		0.082
Polconnect*Industry9		0.420		1.220**		2.216**
Polconnect*Industry10		0.171		2.179		-0.584
Adj. R^2	0.182	0.227	0.097	0.103	0.059	0.024
F-Statistic	4.45***	3.98***	2.35***	1.95***	1.51*	1.14
N	296	296	241	241	154	154

Table IX. Table Regression Results of Industry-Adjusted Tobin's Q

This table presents the regression results for the abnormal firm value. The industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. The industry classification is based on the 2-digit SIC code. The dependent variables *AQ_post1yr*, *AQ_post2yr*, *AQ_post3yr* and *AQ_median* are the industry-adjusted Tobin's Q in post-IPO one, two, three years, and the median industry-adjusted Tobin's Q over three years, respectively. *Polconnect* is the dummy variable which takes the value of 1 if the director is politically-connected; otherwise 0. It is proxied by politically-connected chairman or CEO, current political appointees, former political appointees, member of parliaments, former ministers, and military and senior civil servants in model 1 to 6. *Duality* occurs when the chairman is also the CEO. *Independent* is the percentage of independent directors on the board. *Dirage* is the average age of the firm's directors. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *Leverage* is total debt divided by total assets. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), Holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). Polconnect*Reg Ind is the interaction term of *Polconnect* and *Reg Ind*. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using White heteroskedasticity-consistent t-statistics.

	Model 1: Politically-Connected Chairman or CEO				Model 2: Current Political Appointees			
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	5.530**	7.570	1.363	-0.382	5.446**	8.259	1.176	0.205
Polconnect	-0.246	-0.473*	0.421	-0.420	-0.005	-0.222	0.727	0.164
Duality	-0.255*	-0.370**	-0.207	-0.253	-0.228*	-0.354**	-0.219	-0.238
Independent	0.154	0.101	1.494	2.163**	0.194	0.059	1.544	2.140**
Dirage	-1.698***	-2.090	-0.984	-0.279	-1.695***	-2.263	-1.011	-0.467
Underpricing	0.087	-0.381	-0.199	-0.087	0.085	-0.386*	-0.217	-0.106
Leverage	0.002***	-0.368	0.496	0.409	0.002***	-0.408	0.431	0.340
Exchange	0.033	-0.165	0.071	-0.080	0.044	-0.181	0.051	-0.112
GLC	0.237	0.254	0.087	-0.050	0.251	0.322*	0.023	-0.024
Market Value	0.111*	0.109	0.181*	0.072	0.113*	0.110*	0.205**	0.087
Reg Ind	0.021	0.016	-0.139	-0.058	0.035	-0.060	-0.108	-0.073
Polconnect*Reg Ind	-0.254	0.214	0.114	0.911**	-0.151	1.005	-0.245	0.389
Adj. R^2	0.036	0.046	0.006	-0.015	0.033	0.054	0.028	-0.013
F-Statistic	1.91**	2.14**	1.12	0.72	1.83**	2.36**	1.61*	0.77
N	267	262	234	2.08	267	262	234	208
	Model 3: Former Political Appointees				Model 4: Members of Parliament			
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	5.738**	7.951	0.724	-0.517	5.464**	8.007	1.713	1.713
Polconnect	0.389	0.461	-0.361*	-0.176	0.268	0.241	0.242	0.242
Duality	-0.203	-0.317**	-0.255	-0.249	-0.198	-0.329**	-0.217	-0.217
Independent	0.269	0.218	1.500	2.219**	0.230	0.241	1.493	1.493
Dirage	-1.845***	-2.309	-0.776	-0.277	-1.764***	-2.340	-1.136	-1.136
Underpricing	0.082	-0.388*	-0.200	-0.087	0.089	-0.402*	-0.196	-0.196
Leverage	0.001***	-0.285	0.468	0.415	0.002***	-0.317	0.472	0.472
Exchange	0.030	-0.182	0.087	-0.082	0.034	-0.177	0.062	0.062
GLC	0.241	0.260	0.035	-0.069	0.233	0.217	0.013	0.013
Market Value	0.131**	0.132*	0.177*	0.081	0.128**	0.141**	0.202**	0.202**
Reg Ind	0.060	0.090	-0.245	-0.097	0.069	-0.011	-0.216	-0.216
Polconnect*Reg Ind	-0.250	-0.369	0.579*	0.452	-0.230	0.169	0.209	0.209
Adj. R^2	0.047	0.055	0.009	-0.016	0.041	0.052	0.012	-0.011
F-Statistic	2.19**	2.38***	1.19	0.71	2.03**	2.31**	1.25	0.79
N	267	262	234	208	267	262	234	208
	Model 5: Former Ministers				Model 6: Senior Civil Servants			
	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median	AQ_post1yr	AQ_post2yr	AQ_post3yr	AQ_median
Intercept	5.478**	7.834	1.207	-0.120	5.462**	7.817	1.268	-0.115
Polconnect	-0.098	-0.115	-0.165	-0.004	0.223	0.164	0.022	0.112
Duality	-0.232*	-0.348**	-0.240	-0.242	-0.236*	-0.353**	-0.237	-0.241
Independent	0.174	0.132	1.414	2.199**	0.251	0.214	1.446	2.198**
Dirage	-1.690***	-2.181	-0.901	-0.369	-1.719***	-2.208	-0.934	-0.381
Underpricing	0.085	-0.391*	-0.188	-0.090	0.090	-0.389	-0.187	-0.091
Leverage	0.002***	-0.346	0.478	0.398	0.002***	-0.344	0.476	0.403
Exchange	0.042	-0.165	0.074	-0.090	0.049	-0.164	0.074	-0.090
GLC	0.253	0.274	0.059	-0.032	0.257	0.278	0.066	-0.032
Market Value	0.110*	0.112*	0.174*	0.077	0.117**	0.119*	0.178*	0.080
Reg Ind	0.021	0.026	-0.162	-0.042	0.015	0.020	-0.161	-0.036
Polconnect*Reg Ind	0.017	0.118	0.093	0.201	0.222	0.282	0.059	0.145
Adj. R^2	0.033	0.041	0.002	-0.019	0.036	0.043	0.002	-0.018
F-Statistic	1.82*	2.00**	1.05	0.65	1.91**	2.07**	1.04	0.66
N	267	262	234	208	267	262	234	208

Table X. Table Regression Results of Abnormal Stock Returns

This table presents the regression results for the buy and hold abnormal stock returns. The abnormal return is measured by the sample firm's stock return minus the market return proxied by the Straits Times Index (STI) in Singapore. The dependent variables *XRET1, XRET2, XRET3* are the buy and hold abnormal stock returns compounding in post-IPO one, two, and three years, respectively. *Polconnect* is the dummy variable which takes the value of 1 if the director is politically-connected; otherwise 0. It is proxied by politically-connected chairman/CEO, current political appointees, former political appointees, member of parliaments, former ministers, and military and senior civil servants in model 1 to 6. *Duality* occurs when the chairman is also the CEO. *Independent* is the percentage of independent directors on the board. *Dirage* is the average age of the firm's directors. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *Leverage* is total debt divided by total assets. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), Holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). Polconnect*Reg Ind is the interaction term of *Polconnect* and *Reg Ind*. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using White heteroskedasticity-consistent t-statistics.

	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3	XRET1	XRET2	XRET3
	Model 1: Politically-Connected Chairman/CEO			Model 2: Current Political Appointees			Model 3: Former Political Appointees		
Intercept	-0.487	-1.962	-2.192	-0.478	-1.906	-2.098	-0.222	-1.991	-2.458
Polconnect	-0.025	-0.102	-0.218	-0.021	-0.014	0.061	0.030	-0.135	-0.225*
Duality	0.062	-0.016	-0.204*	0.062	-0.010	-0.194*	0.076**	-0.014	-0.222*
Independent	0.108	-0.456	0.334	0.114	-0.452	-0.035	0.078	-0.438	-0.274
Dirage	-0.297	-0.071	0.052	-0.300	-0.094	-0.091	-0.369*	-0.057	0.041
Underpricing	-0.124**	-0.210**	-0.306**	-0.122**	-0.213**	-0.309**	-0.127**	-0.204**	-0.299**
Leverage	-0.0003**	-0.0004*	0.003	-0.0003**	-0.0004*	0.016	-0.0003**	-0.0004*	-0.009
Exchange	0.089**	0.006	-0.211*	0.088**	0.0002	-0.208*	0.092**	0.021	-0.198
GLC	-0.040	-0.063	-0.233	-0.040	-0.062	-0.219	-0.015	-0.065	-0.235
Market Value	0.117***	0.194***	0.226***	0.117***	0.197***	0.227***	0.117***	0.192***	0.219***
Reg Ind	-0.008	-0.145*	-0.294***	-0.008	-0.151*	-0.298***	-0.055	-0.193**	-0.315***
Polconnect*Reg Ind	-0.004	0.120	0.103	-0.007	0.130	0.080	0.252*	0.334*	0.120
Adj. R2	0.154	0.087	0.083	0.154	0.087	0.082	0.181	0.096	0.093
F-Statistic	6.20***	3.21***	2.35**	6.21***	3.21***	2.34**	7.34***	3.45***	2.53***
N	316	255	165	316	255	165	316	255	165
	Model 4: MPs			Model 5: Former Ministers			Model 6: Senior Civil Servants		
Intercept	-0.301	-1.923	-2.220	-0.454	-1.896	-2.090	-0.483	-1.933	-2.105
Polconnect	0.010	-0.077	-0.106	0.116	-0.037	-0.097	-0.0002	-0.204*	-0.036
Duality	0.077**	-0.002	-0.211*	0.064*	-0.017	-0.210*	0.064*	-0.013	-0.208*
Independent	0.065	-0.461	-0.261	0.123	-0.453	-0.317	0.103	-0.439	-0.285
Dirage	-0.351*	-0.081	-0.044	-0.317*	-0.084	-0.071	-0.299	-0.075	-0.102
Underpricing	-0.126**	-0.202**	-0.312**	-0.125**	-0.215**	-0.311**	-0.124**	-0.205**	-0.328**
Leverage	-0.0003***	-0.0005**	0.003	-0.0003**	-0.0004*	0.016	-0.0003**	-0.0004*	0.038
Exchange	0.093**	0.009	-0.213*	0.085**	-0.002	-0.212*	0.088**	0.011	-0.220*
GLC	-0.020	-0.063	-0.234	-0.035	-0.061	-0.230	-0.039	-0.063	-0.237
Market Value	0.119***	0.195***	0.225***	0.120***	0.193***	0.222***	0.117***	0.192***	0.232***
Reg Ind	-0.053	-0.194**	-0.306***	0.0002	-0.137*	-0.289***	-0.003	-0.147*	-0.304***
Polconnect*Reg Ind	0.216	0.293	0.082	-0.137	-0.118	-0.107	-0.121	0.207	0.528***
Adj. R2	0.172	0.094	0.084	0.158	0.088	0.083	0.155	0.089	0.084
F-Statistic	6.96***	3.40***	2.37***	6.38***	3.22***	2.35**	6.25***	3.26***	2.37***
N	316	255	165	316	255	165	316	255	165

Table XI. Board Composition of Regulated Industries

This reports the descriptive statistics of board composition for politically connected and non-politically connected firms in the more highly regulated industries. The more highly regulated industries including electrical and electronic equipment (SIC 36), Holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). The board composition includes board size, duality, independent directors, independent directors/board size, executive directors, executive directors/board size, director age, management ownership and government linked corporation (GLC). t-statistics and z-statistics based on Wilcoxon signed ranks test are used to test for mean and median differences, respectively. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively.

	Politically Connected		Non-Politically Connected		Difference	
	Mean	Median	Mean	Median	Mean	Median
Board Size	6.697	7.000	6.891	6.000	-0.194	1.000
Duality	0.455	0.000	0.598	1.000	-0.143	-1.000
Independent Directors	2.394	2.000	2.424	2.000	-0.030	0.000
Independent Directors/Board Size	0.363	0.333	0.360	0.333	0.003	0.000
Executive Directors	2.879	3.000	3.239	3.000	-0.360	0.000
Executive Directors/Board Size	0.440	0.400	0.461	0.500	-0.021	-0.100
Director Age	48.167	48.000	46.500	46.000	1.667	2.000**
Management Ownership	0.409	0.330	0.393	0.343	0.016	-0.013
GLC	0.030	0.000	0.022	0.000	0.009	0.000

Table XII. Regression Analysis Under New Corporate Governance Code

This table presents the regression results for the abnormal firm value during the pre- and post-event. The event is the new corporate governance code adopted in July 14, 2005. The industry-adjusted Tobin's Q is measured by the sample firm's Tobin's Q minus the industry median Tobin's Q. The industry classification is based on the 2-digit SIC code. The dependent variables *AQ_post1yr* is the industry-adjusted Tobin's Q in post-IPO one year. *Polconnect* is the dummy variable which takes the value of 1 if the director is politically-connected; otherwise 0. It is proxied by politically-connected chairman or CEO, current political appointees, former political appointees, member of parliaments, former ministers, and military and senior civil servants in model 1 to 6. *Duality* occurs when the chairman is also the CEO. *Independent* refers to the percentage of outside unrelated directors. *Dirage* is the average age of the firm's directors. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *Leverage* is total debt divided by total assets. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *Reg Ind* is a dummy variable representing the more highly regulated industries including electrical and electronic equipment (SIC 36), Holding and other investment offices (SIC 67), general building contractors (SIC 15), food and kindred products (SIC 20), and rubber and miscellaneous plastics products (SIC 30). *Event* is a dummy variable which takes the value of 1 if the IPO is issued under the new corporate governance code regime, July 14, 2005; otherwise 0. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using White heteroskedasticity-consistent t-statistics.

	Model 1	Model 2	Model 3
	Full Period	Pre-Event	Post-Event
Intercept	5.553**	4.979*	0.026
	(2.01)	(1.64)	(0.01)
Polconnect	0.841	0.767	1.892
	(1.20)	(1.07)	(0.63)
Duality	-0.190	-0.264*	0.433
	(-1.32)	(-1.89)	(1.17)
Independent	0.210	0.382	0.584
	(0.35)	(0.63)	(0.26)
Dirage	-1.758***	-1.533**	-1.172
	(-2.63)	(-2.19)	(-0.92)
Underpricing	0.070	-0.072	1.585***
	(0.48)	(-0.45)	(5.30)
Leverage	0.002***	-0.468	0.001
	(3.31)	(-1.34)	(1.08)
Exchange	0.019	-0.074	-0.594
	(0.14)	(-0.53)	(-1.51)
GLC	-0.161	-0.024	-1.993***
	(-0.73)	(-0.14)	(-3.51)
Market Value	0.121**	0.130**	0.363**
	(2.06)	(2.05)	(2.27)
Reg Ind	0.048	-0.026	1.024**
	(0.39)	(-0.21)	(1.96)
Event	-0.102	-	-
	(-0.41)		
Adj. R^2	0.027	0.022	0.123
F-Statistic	1.63*	1.50	1.39
N	252	223	29

Table XIII. Logistic Regression Results of Politically Connected Directors

This table presents the results of the demand for politically connected directors. The dependent variable is the dummy variable which takes the value of 1 if the IPO is the politically connected; otherwise 0. *Market Value* is defined as the first day's closing price multiplied by the number of shares outstanding after the IPO. *ROA* is the return on assets prior to the IPO. *Leverage* is total debt divided by total assets. *Underpricing* is computed as the difference between the first day's closing price and offer price as a percentage of the offer price. *GLC* is a dummy variable taking on the value of one if the firm is a government-linked corporation and zero if otherwise. *Exchange* is a dummy variable taking on the value of one if the firm is listed on the main board of the SGX and zero if otherwise. *Board Size* is the total number of board members. *Duality* occurs when the chairman is also the CEO. *Dirage* is the average age of the firm's directors. *Independent* is the percentage of independent directors on the board. *IO* is the institutional ownership at IPO. *Industry 1, 2, 3, 4, 5, 6 ,7, 8, 9* and *10* are dummy variables taking the value of 1 if the 2-digit SIC codes are 36, 67, 73, 87, 28, 15, 20, 30, 50 and 35, respectively; otherwise 0. ***, **, and * represent significance at the 1%, 5%, and 10% levels for a two-tailed test, respectively, using the Wald z-statistics.

	Model 1	Model 2	Model 3
Intercept	2.129	-0.273	-0.081
Market Value	-0.193	-0.236	-0.253
ROA	-0.043	-0.065	-0.073
Leverage	-0.012*	-0.011	-0.014*
Underpricing	0.114	0.273	0.324
GLC	0.295	0.116	0.181
Exchange	0.063	0.478	0.503
Board Size		-0.124	-0.128
Duality		-0.538*	-0.589*
Dirage		0.087***	0.091***
Indepedent		-0.106	-0.041
IO		-0.005	-0.005
Industry1			-0.011
Industry2			-0.316
Industry3			0.395
Industry4			-0.584
Industry5			0.551
Industry6			0.740
Industry7			0.215
Industry8			0.234
Industry9			0.026
Industry10			-1.639
Cox & Snell R^2	0.017	0.077	0.101
-2 Log Likelihood	407.62	304.89	297.34
N	429	429	429